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from 23 September to 4 October 1991

Rapporteur: Mr. Iñigo Salvador-Crespo (Ecuador)

Addendum

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Chapter I

INTERDEPENDENCE OF PROBLEMS OF TRADE, DEVELOPMENT FINANCE AND THE INTERNATIONAL MONETARY SYSTEM

(Agenda item 2)

and

DEBT AND DEVELOPMENT PROBLEMS OF DEVELOPING COUNTRIES

(Agenda item 3)

(continued)

158. The representative of Belarus informed the Board that the Republic of Belarus had become a sovereign State and was going to pursue its own foreign policy and foreign economic activities. The laws adopted by its Supreme Soviet would be directed towards overhauling the economy and would lead to a more active participation in the international division of labour. Given the increased interdependence of States, those who were on the sidelines risked losing the opportunities offered by the international division of labour. The discussion of interdependence issues in the framework of the Board was thus highly important.

159. International organizations should contribute to the process whereby "internationalization" would be conducive to growth in all parts of the world economy and, in particular, in the countries of Eastern and Central Europe. In this area the question of efficient use of UNCTAD's potential was relevant. Thus UNCTAD could become more active in developing new concepts of development and trade in view of the radical changes taking place in the world. Forecasting the trends in the world economy, studying its long-term processes, early detection of negative tendencies should be a part of its activities. Profound analysis of changes taking place in Eastern Europe and recommendations thereon could contribute to early integration of those countries into international economic relations and to the increase of all trade flows. UNCTAD should further concentrate on such issues as debt, instability of international monetary and financial relations, protectionism and structural adjustment. The impact of integration on trade flows and its distribution was also of a great interest. Moreover, it was necessary to coordinate the activities of UNCTAD with those of different international

organizations on the basis of complementarity. His delegation was interested in considering the question of organizational changes in the mechanisms of multilateral trade and economic cooperation.

160. The representative of Tunisia stated that the world economic environment continued to be uncertain owing, in particular, to the fragility of financial institutions in industrialized countries. He noted, however, that during the past decade industrialized countries had registered continued growth of about 4 per cent per year on average. These results were in sharp contrast to those of developing countries, particularly in Africa where a number of countries were experiencing weak growth or even stagnation. Such poor results were not conducive to optimism because they had been registered at a time when most African developing countries had been pursuing structural adjustment programmes involving economic and social costs. The vulnerability of African economies had been exacerbated by a globally unfavourable external environment. He also drew attention to the high debt burden of Africa and said that the debt service ratio for African countries as a whole was currently more than 30 per cent.

161. In his own country debt servicing remained a factor of uncertainty for Tunisia's development and his country was experiencing increasingly high negative net capital flows. The Gulf crisis had also had an impact on his country's economy but, in spite of the difficulties faced, Tunisia would maintain its structural adjustment efforts especially as regards trade liberalization and the restructuring of the public sector.

162. He stressed, however, that the social dimension of structural adjustment and the overall objectives of development should not be overlooked. New approaches on debt should be considered, and he referred to the initiatives recently taken by the Paris Club in favour of Poland and Egypt. He felt that eligibility criteria should be economic rather than political. He also referred to the proposals made by the Secretary-General of the United Nations in his report on the recovery and development of Africa, especially the proposal on bilateral official debt forgiveness, the amortization of private debt in a progressive way, and the reduction of multilateral debt with the assistance of donor countries.

163. Finally, he emphasized the importance of quickly concluding the Uruguay Round, suppressing trade obstacles, solving the debt problem with particular attention to Africa, and increasing official development assistance.

164. The representative of Mexico said that the recent radical changes in the world economic and political setting were a source of uncertainty for many developing countries whose fundamental problems in trade, money and finance remained unsolved. Developing countries were liberalizing their trade, but protectionism continued to rise in the developed countries and was taking less transparent and discriminatory forms. He welcomed the declaration of the recent meeting of the Group of 7 to make an effort to conclude the Uruguay Round; it was, however important that attention be paid in the negotiations to the particular needs of the developing countries.

165. He believed that the increasing interdependence between trade, finance and monetary issues required an adequate effort in international policy coordination, particularly among the industrialized countries and the international financial institutions, taking into account the impact of these countries' policies on the developing countries. Mexico was currently undertaking great efforts to modernize its economic structures and to find new avenues for growth and development. It was not only negotiating a treaty with the United States and Canada to facilitate trade and investment flows, but was also trying to strengthen economic integration with Latin America and the Pacific region, and to establish closer links with the European Community.

166. In many developing countries the problems of debt and reduced availability of external finance had been accompanied by a deterioration of the terms of trade and a fall in primary commodity prices, at a time where it was also very difficult to increase foreign-exchange earnings through higher exports due to rising protectionism. He welcomed the recent initiatives of some creditor countries to solve the debt problem. However, the international debt strategy needed to be strengthened further, so that a larger number of countries could benefit from solutions like the recent 50 per cent debt reductions for Poland and Egypt. He underlined that economic cooperation should not be understood as a political reward.

167. He added that the problem of international migration had to be seen in a historical perspective; there was a tendency to overlook the fact that migrant workers were also a factor of development. The examples of the United States and Canada, which for centuries had been the destination of a huge migration flow from Europe, showed how immigration could lead to accelerated development.

168. Finally, he noted that many suggestions had been made for strengthening UNCTAD. Not all of them, however, went in that direction. To turn UNCTAD into an advisory board on foreign investment would be to stand its purposes on their head.

169. The representative of Argentina, speaking also on behalf of Brazil, said that while the world political order was on the way to greater harmony and consensus, the economic order was marked by an erosion of multilateralism and international economic cooperation, despite increased interdependence and a globalization of economic activity. He stressed the important role played by the developing countries in the liberalization of international trade. Many of them had matured and were undergoing a process of industrialization, accepting the challenges of world markets, and they now expected "fair play". Brazil and Argentina had eliminated non-tariff barriers, deregulated economic activity, were abolishing all direct and indirect subsidization of production, and had substantially reduced the average level of tariffs. By contrast, in many developed countries protectionism, export subsidies and managed trade were on the rise, and there was a lack of willingness on their part to discuss the real problems facing the world economy. Trade was the engine for growth, but it could only expand in a market system, protected by clean, stable and transparent rules of the game. Furthermore, the debt problem had reached unmanageable dimensions, hindering investment and growth in the developing countries.

170. He recalled that UNCTAD had been founded in the belief that it could serve to overcome extreme poverty, hunger and malnutrition in the developing world by the end of this century. In the meantime, many countries had made spectacular progress, but too many were still waiting for it. Today UNCTAD remained the principal forum for discussion of the complex issues of interdependence and development, but there was a need to restore the conditions for global dialogue with a view to fostering sustained growth in all countries. New forms of international cooperation had to be found, and UNCTAD needed an institutional and operational revitalization. UNCTAD VIII provided a unique opportunity for such needed revitalization.

171. The representative of the Democratic People's Republic of Korea said that highly volatile global political and economic changes and the trend towards regional economic groups among developed economies, including those in North America and in Europe, posed a serious threat to the socio-economic

development of the developing countries. The competitiveness of exports of developing countries had constantly been eroded by market instability, a sharp and continuous decline in prices of commodities, restricted access to the markets of developed countries, the upsurge of protectionism, production and export subsidies granted by developed countries, and certain price-fixing practices engaged in by some TNCs. In addition, the export earnings of developing countries were dwindling due to declining demand caused by the recession in the developed economies as well as the rising tide of protectionism and persistent managed trade.

172. While the developing countries had adhered to their commitment to trade liberalization by systematically reducing their tariffs, protectionism pursued by developed countries was taking new forms of non-tariff measures. As a result it was the developing countries that had to bear a high cost for growth and development. Concerted efforts to introduce political and economic conditionalities in international economic cooperation was harmful and dangerous to genuine cooperation and to the economic growth and development of the developing countries.

173. UNCTAD should further strengthen its important role in the field of trade and development by adopting policy measures aimed at creating favourable conditions for the growth and development of the developing countries. In this regard, the tendency of adopting decisions that would affect developed and developing countries and which were taken outside of multilateral forums would marginalize developing countries and should therefore be stopped. The developing countries' say in multilateral organizations should be duly guaranteed.

174. The representative of Venezuela said that although the past decade had brought with it an absolute setback for the developing countries in terms of growth, indebtedness and poverty, in the present decade developing countries had a different perspective derived from their past experiences. The countries of the South had made great efforts to implement stabilization programmes and in liberalizing trade and foreign investment. The developing countries expected to see the Uruguay Round yielding results, including special treatment for developing countries in all areas of negotiation. Such an outcome would constitute an adequate response to the considerable policy reforms they had undertaken during the past few years. He added that UNCTAD VIII should contribute to finding adequate solutions to the debt

problem. He also welcomed the willingness expressed by Group B to join the developing countries in their efforts to promote development and international cooperation.

175. As an example of the commitment of Venezuela to international cooperation, he referred to the meeting between oil producers and consumers, which had been proposed by Venezuela with the support of the French Government in order to bring oil production into line with its use. The meeting was a stimulus for a wider exchange of information and criteria concerning energy.

176. In conclusion, he drew attention to the importance of the next high-level meeting of the Group of 15, to be held in Caracas in November 1991, as a coordinating forum for the South positions on world affairs and to assist on the implementation of cooperation projects.

177. The representative of Algeria stated that the interdependence of trade, finance and the international monetary system was one of the main parameters of the world economy. Structural adjustment programmes had been undertaken by most developing countries, including Algeria, on the hypothesis that the major developed countries would, on their side, take the necessary measures to create a healthy international financial and monetary system. She noted the differences of perception between developed and developing countries on the question of interdependence, the former believing in formulas such as good management, the fight against corruption and the market-economy system to achieve economic recovery, while for the latter what mattered was the adoption of measures and policies aimed at ensuring the satisfaction of the vital needs of their populations in education, housing, employment, socio-economic infrastructure and democracy. In this respect, the formulations adopted by the developed countries, while conveying certain economic truths, could be faulted for their lack of any social message that inspired hope and was likely to win the support of these populations. Her delegation agreed with the view expressed during the informal consultations on interdependence that there was an absolute need to take into account the socio-economic situation prevailing in each country.

178. The consensus existing today on interdependence as a major element of the world economy should allow for the establishment of coordinated policies and mechanisms, particularly at the multilateral level, in view of the end of the East-West confrontation and the measures recently announced on disarmament. Regarding the role of the international community, she referred to the

declaration on the international co-operation in particular the resumption of economic growth and the development of the developing countries and to the International Development Strategy for the Fourth United Nations Development Decade. These two texts adopted by the General Assembly could contribute effectively to broadening the existing consensus on interdependence. UNCTAD could play a positive role in this regard, particularly on the eve of the eighth session of the Conference.

179. Regarding debt, she said that her delegation fully agreed with the statement made by the Group of 77 on this issue. She stressed that, without efficient and appropriate measures to end the negative net transfer and to reduce the debt burden, it would be difficult for developing countries to continue with their programmes of economic and political reforms. In that respect, she felt that the Communiqué of the Group of 7 as well as the recent measures taken by the Paris Club suggested that real improvements in the debt strategy were possible. For a number of developing countries urgent measures on debt should be taken. The proposal made by the United Nations Secretary-General at the opening meeting of the Economic and Social Council in July 1991 to convene an international conference on development finance was now particularly relevant and should therefore be fully supported by the international community.

180. The representative of Viet Nam said that some recovery in world economic activity by the end of 1991 would have been welcome. However, overall improvement would be moderate and it concealed significant disparities among regions. Growth prospects for the least developed countries remained gloomy, with stagnation on commodity markets. The debt problem was far from being solved and measures taken were insufficient. The international debt strategy should have led to a larger contraction of debt and should have been guided by unbiased economic criteria. The shortage of development resources was being acutely felt and a better utilization of world saving was called for. International financing should have assisted development and trade, not the reverse. The economic crisis which developing countries had been facing for a decade was related to an unfavourable external economic environment which had deteriorated sharply compared to previous decades. That adverse environment was characterized by the collapse of financial flows to developing countries, persistent high real interest rates, volatility of exchange rates of the main currencies, continued falling commodity prices, deterioration of terms of

trade, increased protectionism on the part of developed countries, and the use of economic power rather than respect for the agreed principles in international trade.

181. Moreover, the technological gap between developed and developing countries continued to widen, resulting in changes in international competitiveness that transformed comparative advantage into disadvantage for developing countries. Systematic cooperation in economic activities should be engaged in on a broad basis reflecting the needs and goals of all countries for mutual benefit. Durable and sustained development implied prime consideration being given to the protection and upgrading of the environment. But for many developing countries, the resolution of the debt problem was the mainstay for development. Poverty, underdevelopment and environmental deterioration constituted, in fact, a vicious circle. In the efforts to revitalize the world economy, a solution to the debt of developing countries would be beneficial to global economic activity.

182. He stated that Viet Nam had started a renewal process in 1985 to enhance economic efficiency through market mechanisms and had encouraged private initiative. Since the establishment of the Code on Investments, foreign investment had amounted to more than $2 billion. To accelerate the development process, the country had already applied for admission to the Bali Treaty of ASEAN. Finally, he said that Viet Nam was still suffering from an embargo, imposed by a certain country, which hindered not only the development process, but also penalized the latter country's businessmen.

183. The representative of Czechoslovakia stated that, following the momentous political changes in the countries of Central and Eastern Europe, the international community had entered a period of fundamental challenges and unique opportunities for international cooperation. Bold steps were being taken towards democracy and the market economy. However, the slowdown in industrial countries, sharp fluctuations in world prices in 1991, a growing imbalance between large demands on world savings and heavy investment needs, and the failure to conclude the Uruguay Round had made the external macroeconomic environment less favourable.

184. It was important to ensure that democracy and economic progress went hand in hand. Only a market-based economy could ensure successful development within the framework of a pluralistic political system which guaranteed the development of human resources and the primacy of the rule of law. In the

process of transformation his country faced different problems. Some problems, such as the fall in output in the first half of 1991, were the inevitable result of the process of transformation. External factors, market disruption in Eastern Europe and the collapse of the CMEA also had contributed to the fall in production and the rise in unemployment. A key question in the transformation process was the timing and sequencing of reforms. Demonopolization, privatization and creation of modern competitive industries were large tasks which could not be implemented in a short period of time. However, he considered that half-hearted or weak economic policies were dangerous for the economy and that the momentum of reforms must be preserved. The main elements of Czechoslovakia's present policy were tight fiscal, monetary and income policies, price liberalization and the opening up of the foreign trade system. His country's economy was relatively open and dependent on external factors. Czechoslovakia had joined in the Uruguay Round with the conviction that a strong and well-functioning international trading system was essential to sustained economic growth and the expansion of world trade. It welcomed the fact that UNCTAD VIII would be taking place in a very short time and expected to see that forum reacting appropriately and reflecting the above-mentioned elements in its work.

185. The representative of Kenya said that momentous economic and socio-political changes along with technological advances had led to the globalization of the world economy and had escalated the problems of developing countries. Most developing countries were dependent on exports of primary commodities, but over the years, declining commodity prices had eroded export earnings, whereas prices of imports and the cost of financial resources were constantly on the rise, which, in turn, exacerbated the debt problem. As a result little was left over from export earnings for investment in productive activities. While he acknowledged the performance of the "Asian Tigers", he pointed out that those economies had benefited from large injections of foreign investment. The importance of investment flows to developing countries could not be over-stated. To that end, many developing countries had undertaken extensive adjustment and institutional reforms. Indeed, trade, finance and monetary issues were interrelated areas where actions were required on a broad front if domestic policies were to succeed - including remunerative prices for commodities, enhanced market access, adequate financial flows, debt reduction and the reversal of protectionism.

186. The continuing debt crisis, particularly in Africa and Latin America, had grossly impaired investment flows and future commercial borrowings and negatively affected the development of the productive sectors. In the case of Kenya, the external debt burden had grown enormously since 1974. At the same time investments had declined steadily, as the inflow of new finances fell short of outflows. He called for urgent measures by creditor countries to alleviate the situation of debtor countries, including longer repayment periods in rescheduling arrangements, the conversion of ODA debts to grants, easing of the conditionality criteria of the multilateral financial institutions, support for increased exports from developing countries and increased financial flows, especially to African countries as agreed under the UN-PAAERD. Increased export earnings for debtor countries were most important since they would ultimately reduce their need for external financial assistance.

187. The representative of Jamaica said that dynamic changes in political and economic activities had presented new challenges for international cooperation. There was a new imperative to intensify the development dialogue and to agree on adequate measures to assist developing countries in reversing their economic and social deterioration. She noted that increasing globalization in world economic activity, facilitated by advances in information technology, had given a substantial impetus to interdependence. Developing countries had thus become more vulnerable to the shifts in macroeconomic policies in the major OECD countries, in particular on the debt burden of developing countries. Despite vigorous adjustment efforts by debtor countries the external payments situation had remained extremely difficult, and had impeded the prospects for development. While some progress had been made in relieving the debt burden in respect of commercial bank debt and official bilateral debt, the overall effect of such measures had been limited. She was encouraged by the debt reduction agreement recently concluded between the Paris Club and Poland and Egypt, which represented a significant advance in the international debt strategy. She called for urgent action to relieve the debt burden of middle-income countries with debt obligations to multilateral financial institutions, and for consideration to be given to the full write-off of debt owed by low-income countries.

188. Turning to the Uruguay Round, she expressed the hope that the negotiations would achieve balanced and successful results. It was of vital

importance for developing countries to gain better and accelerated market access. Also crucial to the outcome of the negotiations was the perceived need to resolve the issues of export competition and of developed countries' domestic agricultural support policies. It was disturbing to note that protectionism had continued in developed countries while far-reaching trade liberalization measures were being implemented by several developing countries. In addition, the resource needs of developing countries had remained substantial and necessitated a major increase in aid flows and better access to existing world savings.

189. The representative of Costa Rica said that his country had recently rescheduled its commercial debt within the framework of the Brady initiative, and had negotiated official debt rescheduling with the Paris Club as well as within the framework of the Enterprise for the Americas Initiative. Even though the economy of his country had improved, the economic indicators would have been substantially better if the problem of the debt burden had been solved, as was the case for many other debtor countries. Although it had undergone a severe structural adjustment programme, its efforts to improve economic efficency would only bear fruit when access to export markets was ensured and when the debt burden was significantly reduced. In the past few years the country had suffered a grave deterioration in health services, housing, education and infrastructure.

190. He said that the debt problem was the responsibility of both debtors and creditors. Therefore, the multilateral financial institutions should review their lending policies. New formulas of debt relief had to be found, particularly for those countries that, with great efforts, had fulfilled their debt obligations. The capacity of countries to pay should be judged in accordance with their fiscal situation, their development needs and their social and economic obligations. Finally, debtor countries should be allowed to make repayments in national currency to finance projects that contributed to poverty reduction, the generation of foreign exchange and protection of the environment.

191. The representative of Nigeria said that the end of the Cold War had made more real than ever the prospect for channelling world resources, previously diverted to expenditure on arms, to development programmes. He noted that the world economy was in recession. Athough the developing countries were on the whole showing some signs of improvement, as GDP growth in 1991 was expected to

be higher than in 1990, many - especially in Africa - had experienced lower rates of growth. In the current trend of forming free trade agreements and regional trading blocs among developed countries, the total marginalization of Africa could only be avoided if the multilateral trading system was strengthened. The successful conclusion of the Uruguay Round would be very important for Africa, if it led to the dismantling of barriers to trade in sectors such as tropical products, agriculture, textiles, clothing and natural resource-based products.

192. The African continent had experienced more negative net resource flows as more money was transferred to the multilateral financial institutions and commercial banks had been reluctant to lend new money to the region. This development was taking place in a period of increasing shortage of savings and rising demand for external finance due notably to the events in Eastern and Central Europe. No less than 35 African countries had embarked on IMF-supported structural adjustment programmes. The success of such programmes would depend on an improvement in the international economic environment. The industrialized countries should similarly adjust their economies to reduce structural imbalances and to achieve stable exchange and interest rates.

193. He recalled that African leaders, after several years of negotiations, had signed in Abuja, Nigeria, in June 1991 the Treaty establishing the African Economic Community, which would offer greater potential for structural change and transformation of the Continent.

194. As for the African debt crisis, he welcomed the statement of the recent London Group of 7 Summit, which stipulated that Africa deserved special attention and expressed the commitment to providing concessional finance and reducing debt burdens. Welcoming also the recent debt relief granted to Poland and Egypt, he hoped that similar debt relief would be extended to others, particularly the severely indebted African countries. In this regard, he expressed his support for the call of the Group of 77 for the establishment of an international debt facility.

195. The representative of the Islamic Republic of Iran observed that the 1 per cent growth of the world economy in 1990 was less than the rate of growth of world population and that there would be no perceptible growth by the end of 1991. Nevertheless, if disarmament took place and protectionist policies were abandoned, large financial resources would be available for

allocation to poor countries. Since early 1980 developing countries, instead of being recipients, had in fact been exporters of financial resources to developed countries. In 1990 alone, the net financial resources transferred from developing countries to developed countries amounted to $32 billion.

196. The Persian Gulf war was another factor in the worsening global economy in 1990. Although its effect had been temporary, it had imposed deep and lasting negative effects on the countries of the Persian Gulf region. Oil-producing countries in the Gulf had always assisted the needy countries, either multilaterally or bilaterally through grants and concessional loans. With the diversion of financial resources into military expenditure and the reconstruction of war damage, developing countries which had previously received aid from countries of the region were being driven to find other resources. The needs of the Central and Eastern European countries for financial resources would put pressure on the world financial markets and increase concerns about interest rates and the debt crisis of the poor countries. Without a stable international monetary system, worldwide sustainable growth in trade and development could not take place. Policies of the developed countries, based in the 1980s, on short-term considerations and political motives, had had serious negative effects on the international monetary system and had intensified global problems such as the debt crisis. Reluctance to adopt structural adjustment programmes in developed countries had led to distortions, such as huge current account imbalances and severe shortfall in savings and investment. While programmes designed by international financial institutions for developing countries contained pressures for economic liberalization, developed countries, with a long history of protectionist policies to save inefficient sectors, were still insisting on restrictive policies. Reaffirming the need for a successful conclusion of the Uruguay Round of multilateral trade negotiations, he stressed the importance of assessing its impact on world trade, growth and the economic development of the developing countries and said that these aspects should be discussed in the Board and at UNCTAD VIII.

197. The representative of the International Confederation of Free Trade Unions (ICFTU) stated that the ICFTU had consistently urged the need for major initiatives to tackle effectively the continuing debt crisis, the eradication of mass poverty through reactivation of the global development process, and the reform of the regulations governing the conduct of international trade.

Yet the indebted countries continued to be obliged to pursue policies of austerity which were gravely damaging their productive capabilities. International policies so far applied had aggravated rather than alleviated the situation and required drastic revision. Far more resources needed to be devoted to debt reduction programmes of the Brady-Plan type. Large proportions of debt needed simply to be written off.

198. Deepening global interdependence meant that creditors and debtors not only had a common responsibility for the resolution of the debt crisis but also a common interest in the elimination of the international economic imbalances that constituted a major hindrance to the process of growth and development. This process required favourable conditions, both domestically and internationally, if it was to have a chance of success. Recent developments had shown that denial of basic democratic freedoms, and the absence of mechanisms for free expression and of real popular participation in policy-making lead to economic and social stagnation and decay. Wherever trade unions were excluded from decision-making, or were actively repressed, working people were likely to have no commitment to policies of which they would probably be victims rather than beneficiaries.

199. Such considerations were of enormous significance in respect of the programmes of structural adjustment implemented with the involvement of the International Monetary Fund and World Bank. The ICFTU believed that these agencies had a responsibility to link financial assistance to respect for basic human rights, including trade union rights. The terms of conditionality needed to be redesigned to assist debtor economies to grow out of debt while protecting and improving the social fabric upon which their future prospects ultimately depended. To this end, trade unions should be involved fully by the international agencies and governments in the formulation and implementation of adjustment packages.

200. The fact that world trade continued to grow significantly more quickly than output should not be allowed to disguise the major problems confronting the international trading system which had made the Uruguay Round so difficult a process. The ICFTU was concerned to ensure that social rules were introduced into GATT in such a way as to strengthen and defend the mechanisms of open, multilateral, and fair trade. The ICFTU therefore supported strongly the inclusion of a social clause within GATT that would make trading

privileges dependent upon respect of minimum labour standards and ensured that those who exploited forced or child labour, or denied basic rights of organization and collective bargaining, should not draw competitive advantage from so doing.

201. At the 793rd plenary meeting, on 27 September 1991, the spokesman for the Group of 77 (Chile) introduced a draft resolution on agenda item 3 which his delegation had submitted on behalf of the States members of the Group of 77. (The draft resolution was subsequently circulated in TD/B/L.923).